Blow To Armenia's Shadow Economy

Local market traders say a new law punishes them and lets the big fish off the hook.

The Armenian government says a new law obliging market traders to use cash registers is an important step towards cleaning up the shadow economy and boosting tax revenues, but small-time businessmen say they are being unfairly penalised and forced out of business.

“The law on cash registers is a real instrument for protecting the rights of consumers, which has been adopted in all civilised countries,” Armen Alaverdian, deputy head of Armenia’s tax service, told IWPR. “It’s also a method of registering turnover, and is thus a weapon in the fight against the shadow economy.”

The new law, which came into force on April 1, is designed to help ensure increased budget income for 2005 in an economy where around half of transactions are believed to take place outside the tax system. President Robert Kocharian told tax officials that their main goal this year was a “serious battle with the shadow economy” and that the extra revenues would go on social welfare.

According to Armenia’s draft budget, about 90 per cent of total revenues estimated at 730 million US dollars this year should come from taxation.

But market traders are lobbying hard for the abolition of the new law, which they say will drive them to ruin.

“I have four children and I can’t afford to buy a cash register, which costs at least 100 dollars,” said Arman, a 35-year-old trader at the Aresh market in the capital Yerevan. “We already pay the boss of the market 200-300 dollars a month and that does not include the large sums we spend on customs clearance.”

Traders say they are already having to pay ever-rising taxes on imports of goods from Russia, Iran and Turkey.

Now they face the prospect of fines if they do not begin to use cash registers. The penalty is equivalent to 300 dollars, and the amount doubles for a second offence.

The government first took the decision to require cash registers in 1998, but their introduction was slowed down by the lack of a legislative framework. Currently just over ten per cent of the 130,000 commercial organisations registered in the country use tills. The authorities want them to be in universal use by 2010.

The law was not passed at the first attempt and was much debated in parliament. The Orinats Yerkir party in the governing coalition initially stoutly defended the rights of the traders.

“So why is Orinats Yerkir not supporting us any more?” said market trader Anna, blaming party boss Artur Bagdasarian. “Now that the party leader has become speaker of parliament, our problems don’t concern him and he doesn’t listen to ordinary people.”

Samvel Balasanian, leader of the party’s parliamentary group, denied the charge of political opportunism. He told IWPR that thanks to his party’s efforts, the legislation had been postponed for two years, was now being implemented gradually and could still be amended. “Earnings need to be made legal,” he said.

Tax official Armen Alaverdian said that Armenia’s markets were rife with tax-free trading.

The tax service told IWPR that the country’s 130 markets provided just 0.7 per cent of tax revenues – a figure of around four million dollars - in 2004.

Tatul Manaserian, an economist who is an opposition member of parliament, agreed that tens of millions of dollars were going undeclared, but he said the traders were being unfairly singled out.

“Of course the use of cash registers ought to become normal business practice in our country, too, but it is unacceptable to restrict opportunities for small and medium-sized businessmen, who do pay their taxes in one way or another. The section of society that forms the middle class is being suppressed in this manner.”

Economist Vardan Bostajian argues that enforcing the use of cash registers is a poor way of fighting the shadow economy. “Businessmen operating… with a very small turnover are just trying to earn their daily bread, and to put it mildly they do not welcome the budget being swollen at their expense without getting any government support in return.”

Other economic experts say it’s the small fry at the markets who are being targeted, while the bigger fish who own or run the markets and cream off big profits are overlooked.

According to the most recent report from the International Monetary Fund, large taxpayers provide only 23 per cent of tax revenues in Armenia.

“This problem deserves more attention in Armenia. The reason for it may be that some of the big businessmen are closely connected with the government,” said Manaserian, adding that more political will is needed to tackle the problem.

“Basically the government wants to solve the problems of one section of society by impoverishing another social group,” said Gayane Grigorian, who has worked as a trader for many years at a Yerevan market. “It definitely won’t make the nation wealthy, but it may lead to a rise in emigration.”

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Location: Turkey
Stavropol
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North Ossetia
Focus: Caucasus
